

## TEST YOURSELF ON MERCHANDISING ACTIVITIES

### True or False

- T F 1. The operating cycle of a business is the period of time between payroll dates.
- T F 2. Gross profit is the profit the business would have made if all the goods available for sale had been sold during the period.
- T F 3. When a cash sale is made by a merchandising business, the revenue is recorded by a debit to Cash and a credit to sales, whether or not the sales price exceeded the cost of the goods sold.
- T F 4. The gross profit rate is computed by dividing net sales by gross profit.
- T F 5. A subsidiary ledger is used to account for items that are immaterial or of less significance than those recorded in the general ledger controlling account.
- T F 6. Although general ledger accounts are used in the preparation of financial statements, the information contained in subsidiary ledgers must be disclosed in footnotes to the financial statements.
- T F 7. The perpetual inventory method will reflect from day to day the cost of goods sold thus far during the period and the current balance of goods on hand.
- T F 8. When a perpetual inventory system is in use, the accounting records contain an account, Cost of Goods Sold, which must be closed at the end of the accounting period.
- T F 9. The perpetual inventory system is appropriate not only for businesses handling high unit cost goods, such as automobiles or fur coats, but also practical for stores with a computerized system handling a large quantity of low-priced items.
- T F 10. When the periodic inventory method is used, the Inventory account is debited when merchandise is purchased and credited when goods are sold.

- T F 11. In a periodic inventory system, the purchase of either merchandise or office equipment by a merchandising concern would be recorded as a debit to Purchases and a credit to either Cash or Accounts Payable.
- T F 12. When a periodic inventory system is in use, the cost of goods sold section contains two amounts for Inventory: a beginning inventory which is added in arriving at the cost of goods available for sale, and an ending inventory which is subtracted to determine the cost of goods sold.
- T F 13. When a periodic inventory system is used, the beginning inventory figure in this period's cost of goods sold computation was the ending inventory figure in last period's computation.
- T F 14. When a periodic inventory system is in use, the income statement will report the "Cost of Goods Sold" even though the accounting records do not use a Cost of Goods Sold account on an ongoing basis.
- T F 15. *Point-of-sale terminals* often make use of optical code recognition labels.
- T F 16. The term "net sales" means gross sales less the cost of goods sold.
- T F 17. A company with a trend of steadily increasing net sales has increasing profitability.

### Completion Statements

Fill in the necessary word to complete the following statements:

1. The period of time a business usually takes to convert cash into inventory, then into receivables, and finally back into cash is called the \_\_\_\_\_.
2. In a periodic inventory system, adding net purchases to the beginning inventory gives the \_\_\_\_\_. Subtracting \_\_\_\_\_ from this figure leaves the \_\_\_\_\_.
3. The excess of sales revenue over the cost of goods sold is called \_\_\_\_\_.
4. The Inventory account is debited when goods are acquired and credited when they are sold according to the \_\_\_\_\_ inventory method. Inventory is determined solely by a \_\_\_\_\_ when the \_\_\_\_\_ inventory method is used.
5. \_\_\_\_\_ is the dollar amount of gross profit expressed as a percentage of \_\_\_\_\_.

6. When merchandising companies record all purchases at *net cost*, the accounting system is set up to keep track of \_\_\_\_\_. If purchases are recorded at *gross invoice price*, the accounting system keeps track of \_\_\_\_\_.

### Multiple Choice

Choose the best answer for each of the following questions and enter the identifying letter in the space provided.

- \_\_\_ 1. Carter Stores must determine how much it owes Hawkins Wholesale, one of Carter's merchandise suppliers, as of December 31. This information can be found *most directly* by examining:
- a. Carter's accounts receivable subsidiary ledger.
  - b. Carter's accounts payable subsidiary ledger.
  - c. Carter's inventory subsidiary ledger.
  - d. The current liability section of Carter's balance sheet as of December 31.
- \_\_\_ 2. Which of the following statements is not descriptive of the perpetual inventory system?
- a. The amount of ending inventory is determined only by physical count and the cost of goods sold is determined by a computation made at year-end.
  - b. Two entries are made when merchandise is sold.
  - c. A ledger account keeps track of the cost of goods sold during the period.
  - d. The Inventory account balance is adjusted each time merchandise is purchased or sold during the period.
- \_\_\_ 3. The inventory subsidiary ledger:
- a. As well as the Inventory controlling account appears in the current asset section of the balance sheet.
  - b. As well as the Inventory controlling account must be adjusted each time merchandise is purchased or sold in a perpetual inventory system.
  - c. Is used to keep track of inventory items not accounted for in the Inventory controlling account.
  - d. Is an integral part of a periodic inventory system.
- \_\_\_ 4. When a perpetual inventory system is used:
- a. The dollar amount of inventory shrinkage is more difficult to determine than in a periodic inventory system.
  - b. Inventory shrinkage is more likely to occur than in a periodic inventory system.
  - c. Both the Inventory controlling account and the inventory subsidiary ledger accounts are adjusted to agree with the quantities determined by the physical inventory.
  - d. Taking a physical inventory is not necessary since up-to-date inventory and cost of goods sold information is provided by the accounting records.

**Assume use of a *periodic* inventory system for 5 and 6.**

- 5. By adding the purchases during the period to the beginning inventory and deducting the ending inventory, we obtain an amount called the:
  - a. Cost of goods available for sale.
  - b. Cost of goods sold.
  - c. Gross profit on sales.
  - d. Operating expenses.
  
- 6. The ending inventory of Bar Marine was \$42,000. If the beginning inventory had been \$50,000 and the cost of goods available for sale during the period totaled \$104,000, the cost of goods sold must have been:
  - a. \$196,000.
  - b. \$112,000.
  - c. \$62,000.
  - d. None of the above.
  
- 7. The net sales of Austin Saddlery were \$200,000 for the current month. If the cost of goods available for sale was \$180,000 and the gross profit rate was 35%, the cost of goods sold must have been:
  - a. \$70,000.
  - b. \$130,000.
  - c. \$50,000.
  - d. \$63,000.
  
- 8. Special journals are advantageous:
  - a. Only in non-computerized (manual) accounting systems.
  - b. Only in computerized accounting systems.
  - c. Whenever a business must record an unusual or unique transaction.
  - d. Whenever a business must record a large number of similar transactions.
  
- 9. The net sales of Regent Musical Supply in October were \$20,000. Regent Musical Supply uses a periodic inventory system. If the cost of goods available for sale during the month was \$18,000, and the gross profit was \$8,000, the ending inventory must have been:
  - a. \$ 4,800.
  - b. \$ 6,000.
  - c. \$10,000.
  - d. Some other amount.

10. Which of the following would be *least* useful in evaluating a company's profitability?
- a. Profit margin for the current year.
  - b. Trend in profit margins for the most recent 5-year period.
  - c. Trend in earnings for the most recent 5-year period
  - d. Net sales for the current year.

### Exercises

1. Listed below are eight technical accounting terms emphasized in this chapter.

<i>Net sales</i>	<i>Cost of goods sold</i>
<i>Periodic inventory system</i>	<i>Inventory subsidiary ledger</i>
<i>Gross profit</i>	<i>Gross profit rate</i>
<i>Perpetual inventory system</i>	<i>Inventory shrinkage</i>

Each of the following statements may (or may not) describe one of these technical terms. In the space provided below each statement, indicate the accounting term described, or answer "None" if the statement does not correctly describe any of the terms.

- a. An item readily apparent upon taking a physical inventory in a perpetual inventory system, but difficult to determine in a periodic system.  
\_\_\_\_\_
- b. Gross sales revenue less sales discounts and sales returns and allowances.  
\_\_\_\_\_
- c. Beginning inventory, plus the delivered cost of goods purchased, minus ending inventory.  
\_\_\_\_\_
- d. An accounting record generally not used in a periodic inventory system.  
\_\_\_\_\_
- e. Net sales less the cost of merchandise sold.  
\_\_\_\_\_
- f. Gross profit expressed as a percentage of net income.  
\_\_\_\_\_
- g. System of accounting for merchandise in which a Purchases ledger account is not used.  
\_\_\_\_\_

2. White Feather Corporation uses a *perpetual* inventory system. For each of the merchandising transactions shown on the following page, give the title of the account(s) that are to be debited and credited in recording each transaction. (You may ignore sales taxes.)

Transaction	Account(s) Debited	Account(s) Credited
a. Purchased merchandise for cash.		
b. Sold merchandise on account.		
c. Collected cash from customer in b above.		
d. Sold merchandise for cash.		
e. A physical inventory at year-end disclosed a normal amount of inventory shrinkage.		

3. Alcala Corporation uses a *periodic* inventory system. Each of the following four horizontal lines represents data taken from a separate multiple-step income statement. Insert the missing amount in the space provided. Indicate a net loss by placing brackets around the amount, as for example, in line a, (20,000).

	Net Sales	Cost of Goods Available for Sale	Ending Inventory	Cost of Goods Sold	Gross Profit	Operating and Non- Operating Expenses	Net Income or (Loss)
a.	\$400,000	\$325,000	\$ _____	\$250,000	\$ _____	\$ _____	\$ (20,000)
b.	700,000	_____	90,000	_____	290,000	235,000	_____
c.	250,000	210,000	_____	_____	72,000	105,000	_____
d.	_____	_____	82,000	\$330,000	_____	185,000	35,000

4. Kids' World sell children's furniture and clothing. The following information is available for sales during the month of May:

	Furniture	Clothing
Net sales .....	\$6,400	\$3,600
Cost of Goods Sold .....	4,160	1,440

Compute for May the profit margin (gross profit rate) for:

- a. Furniture sales \_\_\_\_\_ %  
b. Clothing sales \_\_\_\_\_ %  
c. The company as a whole \_\_\_\_\_ %